

# **CORRECTED FISCAL NOTE**

## **SB 2464**

February 23, 2006

**SUMMARY OF BILL:** Reduces the state sales tax on food from six percent (6%) to three percent (3%) for FY07-08 and eliminates the sales tax on food for FY08-09 and thereafter.

### **ESTIMATED FISCAL IMPACT:**

On January 19, 2006, we issued a fiscal note indicating net decreases to state revenues of \$215,100,000 for FY08 and \$430,200,000 for FY09 and thereafter. In addition, the decrease of local government revenues were \$9,354,000 for FY08 and \$18,717,000 for FY09 and thereafter. Based on additional information, the estimated fiscal impact of this bill is:

#### **(CORRECTED)**

##### **Decrease State Revenues:**

**Net Impact - \$215,100,000 - FY07-08**

**Net Impact - \$430,200,000 - FY08-09 and thereafter**

##### **Decrease Local Govt. Revenues:**

**Net Impact - \$9,740,000 - FY07-08**

**Net Impact - \$19,478,000 - FY08-09 and thereafter**

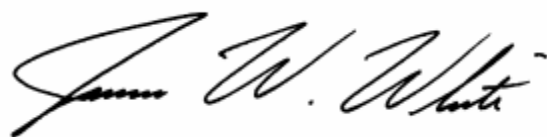
#### **Assumptions:**

- Taxable sales of food and food ingredients in Tennessee for 2004 were estimated at approximately \$7.0 billion.
- CPI on food increased by approximately 2.0% in 2005.
- Inflation rate on food remains constant at 2.0% per year.
- Inflation-adjusted taxable sales for food and food ingredients in Tennessee for 2007 are estimated at \$7.43 billion.
- State sales tax revenue from food for 2007 is estimated at \$445.8 million at the current rate of 6% (\$7.43 billion X 6% = \$445.8 million).
- Reducing the state sales tax rate on food for FY07-08 to 3% will reduce state sales tax revenue by approximately \$222.9 million for the fiscal year (\$7.43 billion X 3% = \$222.9 million).
- Eliminating the state sales tax on food altogether in FY08-09 will reduce state sales tax revenue by approximately \$445.8 million for this fiscal year and for each fiscal year thereafter relative to FY06-07.

- Current law appropriates 4.4194% of state sales tax revenue to the municipalities within Tennessee.
- Reducing state sales tax revenue by \$222.9 million in the first fiscal year will reduce local government revenues by approximately \$9.85 million ( $\$222.9 \text{ million} \times 4.4194\% = \$9.85 \text{ million}$ ) in FY07-08.
- Eliminating the state sales tax on food in FY08-09 will reduce local government revenues by approximately \$19.7 million for this fiscal year and for each fiscal year thereafter relative to FY06-07 ( $\$445.8 \text{ million} \times 4.4194\% = \$19.7 \text{ million}$ ).
- 50% of consumer tax savings will be spent on other non-food sales taxable items in Tennessee at the current state rate of 7% and at a local option rate that averages 2.25%.
- The state would realize offsetting increases in sales tax revenue estimated at \$7.8 million for FY07-08 ( $\$222.9 \text{ million} \times 50\% \times 7\% = \$7.8 \text{ million}$ ) and \$15.6 million for FY08-09 and in each fiscal year thereafter ( $\$445.8 \text{ million} \times 50\% \times 7\% = \$15.6 \text{ million}$ ).
- Local governments would realize offsetting increases in sales tax revenue estimated at \$110,800 in FY07-08 ( $\$9.85 \text{ million} \times 50\% \times 2.25\% = \$110,800$ ) and \$221,600 in FY08-09 and in each fiscal year thereafter ( $\$19.7 \text{ million} \times 50\% \times 2.25\% = \$221,600$ ).
- The aggregate net decrease to state revenues would be approximately \$215.1 million in FY07-08 ( $\$222.9 \text{ million} - \$7.8 \text{ million} = \$215.1 \text{ million}$ ) and \$430.2 million in FY08-09 and in each fiscal year thereafter ( $\$445.8 \text{ million} - \$15.6 \text{ million} = \$430.2 \text{ million}$ ).
- The aggregate net decrease to local government revenues would be approximately \$9,740,000 in FY07-08 ( $\$9.85 \text{ million} - \$110,800 = \$9,740,000$ ) and \$19,478,000 in FY08-09 and in each fiscal year thereafter ( $\$19.7 \text{ million} - \$221,600 = \$19,478,000$ ).

## **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director